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SUBJECT: Paris Club November 2009 Meeting and Negotiations with
Comoros

¶1. (SBU) SUMMARY: During the November 18, 2009, Paris Club "Tour d'Horizon," the IMF requested financing assurances for the Democratic Republic of Congo's (DRC) new IMF program. Canada, troubled by the revocation of a mining license held by a Canadian-led consortium, waited until November 24 to join the consensus in favor of providing assurances. The IMF and World Bank said that the Republic of Congo's failure to provide details on a $939 million payment to vulture funds did not jeopardize the IMF lending program, though the U.S. argued that the Paris Club should explore ways to respond to the payment, which was a major breach of comparability commitments. The U.S. informed the IMF and World Bank that it expected full implementation of the performance criteria for completing the Heavily Indebted Poor Countries (HIPC) initiative.

¶2. (SBU) Antigua and Barbuda is negotiating an IMF lending program, which would involve sweeping fiscal actions and debt relief. The U.S. noted that any debt treatment could only involve rescheduling debts, since the U.S. was not in a position to provide debt cancellation to Antigua. Argentina had indicated to the Secretariat that it would not address Paris Club arrears until after the reopening of the offer to private sector holdout creditors. The IMF said that the proposed lending program for Moldova did not envisage Paris Club debt relief. Australia wanted to restructure some $10 million of long-standing debt owed by Cuba. The Paris Club was firm and unanimous that this would violate solidarity among creditors. November 19 negotiations with Comoros went smoothly. Paris Club

creditors provided exceptional treatment of short-term debt and included a clause providing for additional reduction of payments coming due after Comoros reaches HIPC decision point, as an additional incentive to begin the HIPC process.

¶3. (SBU) Creditors also discussed methodological issues concerning outreach to non-Paris Club creditors and held another meeting of the working group on treatment of loan guarantees. End Summary.

Antigua and Barbuda

¶4. (SBU) The IMF reported that the Antiguan government had publicly announced that it was seeking an IMF Stand-By Arrangement (SBA) lending program. An IMF staff mission in December would continue discussions, and the Fund expected to seek financing assurances from Paris Club creditors at the January 2010 meeting. The IMF Executive Board could be asked to approve the SBA in early February. The program would aim to shift the primary deficit to surplus in 2010, and involve an array of tax changes, cuts in wages and transfers, outsourcing, and rationalization. The package would be announced in the 2010 budget to be presented to Parliament later in November. Fiscal actions would not be sufficient, however, and a debt restructuring - of both domestic and international debt - would be required. The country had hired advisors (which were unnamed).

¶5. (SBU) The Secretariat indicated that it expected only a rescheduling but that debt sustainability under that scenario would need to be assessed. The U.S. indicated (as it had done to the Fund mission the previous week) that it was not in a position to go beyond rescheduling due to the lack of congressional authorization and appropriations. Debt data reconciliation is underway.

Argentina

¶6. (SBU) Paris Club Chairwoman Delphine d'Amarzit reported on her meeting with Finance Secretary Lorenzino during a G-20 meeting in St. Andrews, at which he had told her that Argentina would not address Paris Club arrears until the new offer to holdout bondholders had been made. She had asked whether Argentina would seek a discount from the Paris Club, and Lorenzino had replied that it would not. She noted that the recently floated - then denied - idea of paying Paris Club arrears by issuing a bond contradicted what Argentina had said, and what Argentine law provided for, on payment using reserves.

¶7. (SBU) The IMF reported that GDP was expected to decline 2.5 percent in 2009, then to grow 1.5 percent in 2010, with a pickup in export demand and agricultural production (following a drought). The peso had stabilized vis-a-vis the dollar, after depreciating 15 percent since September 2008, and in fact the central bank had been buying dollars to stem peso appreciation. The current account surplus was strengthening due to weak imports and strong export demand, while capital flight by residents had slowed in the third quarter, with confidence growing. As a result, gross reserves at the end of October were $46 billion, with net reserves estimated at about $30 billion.

¶8. (SBU) The offer to holdout bondholders was expected to be made in early-2010, with a haircut of 66 percent of principal, and repayment of PDI with a 7-year bond yielding market interest rates. Institutional creditors would be required to put in new money. Interest in an IMF Article IV consultation appeared to have waned, perhaps because of the focus on the offer to holdouts. The Fund insisted that an Article IV had to be "normal" in every respect.

Comoros

¶9. (SBU) Negotiations on so-called "Naples terms" treatment for Comoros were amicable, marked by a couple of oddities: (1) France

alone accounted for almost 90 percent of the total debt owed to the Paris Club, with Italy accounting for almost all of the rest; and (2) over 70 percent of the total Paris Club debt was short-term, which is normally not restructured under Paris Club debt relief agreements. Total Paris Club exposure was just under $16 million, perhaps a record low. The Paris Club accounted for a very small share of Comoros' total debt, so the Secretariat had tried (unsuccessfully) to persuade Comoros' Gulf creditors, which accounted for over $40 million, to participate in the negotiations.

¶10. (SBU) The Paris Club's offer to the Comoros contained two

unusual elements: (1) deferral of the short-term debt, and (2) a commitment to reduce debt service coming due by a further 50 percent after decision point - the latter designed to provide an incentive to reach decision point, which would otherwise have provided almost no additional benefit.

Democratic Republic of Congo

¶11. (SBU) The IMF requested financing assurances for a new 3-year Poverty Reduction and Growth Facility (PRGF) lending program, which the IMF Executive Board eventually approved on December 11. All creditors except Canada agreed to provide the financing assurances, although many raised concerns, including unpaid short-term debts (Russia and Brazil), the fiscal effects of Chinese-funded investments and particularly their maintenance costs (Japan), and monetary policy and the general comfort level with the program (Netherlands).

¶12. (SBU) Canada's concerns revolved around the DRC authorities' decision to revoke the license of a mine controlled by a Canadian company, and in which the World Bank's International Finance Corporation (IFC) had an investment. Canada insisted that its motives were not commercial in nature, but driven by concerns about the investment environment.

¶13. (SBU) Paris Club Chairwoman D'Amarzit was particularly critical of the Canadian position, arguing that the investment climate was an issue for the IMF and World Bank, not for the Paris Club; that the Paris Club should not be used for leverage in the way Canada was attempting; and that DRC had made all of the concessions that had been demanded by the international community.

¶14. (SBU) The Fund argued that it could not wait long for the Paris Club's financing assurances, since the PRGF program included end-December targets, and a delay beyond December would create a requirement to renegotiate the program. Finally, Paris Club creditors agreed to give Canada "a few days" to provide assurances. Canada provided its assurances on November 24, and the Paris Club's collective assurances were communicated to the IMF on November 25.

¶15. (SBU) The PRGF program will target average annual growth of 6.5 percent, single-digit inflation, and international reserves rising to 12 weeks of non-aid imports by 2012. The lending program will aim to mobilize domestic revenues, improve financial management, recapitalize and reorganize the Central Bank, and to improve public enterprises, the financial sector and the regulatory environment.

¶16. (SBU) The IMF confirmed that Sino-Congolese loan package carried a fixed rate of 4.4 percent, yielding a grant element of 42 percent (or 46 percent if the signing bonus was included). The second infrastructure tranche had been cancelled, and the mining portion carried no state guarantee. The joint IMF/World Bank debt sustainability analysis concluded that the Sino-Congolese deal would increase the DRC's debt burden in the medium term but would not have a major impact on debt sustainability over the long term.

¶17. (SBU) HIPC completion point could come as soon as mid-2010, at

the time of the first PRGF review. The Netherlands again raised the

idea of initially rescheduling, rather than cancelling, DRC's arrears. There was general sympathy for the idea of not cancelling arrears until the DRC reaches HIPC completion point. The U.S. delegation stated that it was considering this proposal.

Republic of Congo (Brazzaville)

¶18. (SBU) The IMF reported that the Republic of Congo (ROC) had declined to provide additional information on the recent $939 million payment to vulture funds, citing confidentiality clauses in the settlement. The IMF believed the information was not critical to the country's macroeconomic outcomes and that the payments did not threaten the PRGF program. The Fund judged that the initial miscalculation of the discount was not misreporting under the PRGF program or under the HIPC initiative. The ROC had met all quantitative criteria, along with all but one of the June benchmarks (a strategic study of the oil sector, expected to be completed in 2010). The IMF Executive Board later approved the PRGF review on November 30.

¶19. (SBU) A number of conditions for completing the HIPC initiative (so-called "completion point triggers") had already been met. A joint Fund/Bank mission to Brazzaville planned for early December had been postponed to allow more time for implementation of unmet triggers - including on oil commercialization and the procurement code. If these are met, the IMF and World Bank boards could approve completion point as early as January 2010. The World Bank echoed the IMF's assessment, noting that the delays were mostly on the oil commercialization trigger, though the Bank too envisaged a January completion point. The U.S. delegation stated, both in plenary and to Fund and Bank representatives on the margins, that the U.S. would expect to see stringent implementation of the triggers before the ROC advances to completion point.

¶20. (SBU) Paris Club creditors also agreed to send a letter to the Institute for International Finance (IIF) complaining about the vulture payment, and to reply to the ROC's October 15 letter to the Secretariat. The reply will point out the ROC's violation of its commitment to obtain comparable treatment from all creditors, highlight the ROC's failure to take advantage of the international assistance that was available concerning negotiations with vulture funds, and emphasize the Paris Club's desire to receive more information before launching new negotiations to provide completion point debt cancellation.

¶21. (SBU) The U.S. delegation stressed that while more information would be helpful, the Paris Club already had enough to know that the payment represented a serious departure from comparable treatment and that Paris Club members should consider what actions might be taken in response. The U.S. delegation stated that it was considering withholding the voluntary additional debt cancellation, beyond the minimum required under the HIPC treatment, that the U.S. normally provides to HIPCs that reach completion point.

Cuba

¶22. (SBU) Australia had placed Cuba on the agenda, indicating that it was seeking to reengage with the country and as part of that effort wanted to renegotiate about EUR 6-7 million in debt, all of which was in arrears. While Australia preferred to join a multilateral effort, it had a "realistic" view, was considering "all options," and sought the Paris Club's input. Australia was not attempting to collect payment, however, and would not seek to be paid when other Paris Club members were not being paid.

¶23. (SBU) The Secretariat replied that the Paris Club (and the "Group of Creditors of Cuba," which excludes the U.S.) had agreed to a multilateral approach and on maintaining creditor solidarity. Paris Club Secretary General Cheremetinski reminded members that there had been an attempt to make contact with Cuba after 2008 storms, but that the Cuban authorities had not replied. However, the

Paris Club/Group had agreed that there could be bilateral agreements on short-term loans, which the Australian ones were not.

¶24. (SBU) Other creditors unanimously argued that Australia should not proceed, with the UK warning that an Australian deal could put pressure on other creditors also to cancel debt. The U.S. delegation made clear that its policy had not changed, and that there had been no change in Cuban behavior to warrant a change in the multilateral consensus. Any future debt relief should come, as for all countries, with a firm commitment to economic reform, and with membership in the Fund and an appropriate program. The Secretariat concluded that "the message from creditors is clear." The Secretariat also indicated it might attempt again to make contact with the Cuban authorities.

Moldova

¶25. (SBU) The IMF reported that the government and Fund staff had reached preliminary agreement on a lending program, which the IMF Executive Board could be asked to approve in January. The program did not envisage Paris Club debt relief, since financing from other sources would be adequate. The World Bank reported that it planned to provide some $40 million in budget support.

Ukraine

¶26. (SBU) The IMF reported that the Stand-By Arrangement (SBA), including total disbursements of $10.9 billion, had helped stabilize Ukraine's economy. The recession seemed to have bottomed out in the first quarter, though GDP was still expected to fall 14 percent in 2009 before rising 3 percent in 2010. The IMF had delayed the planned SBA program review, however, due to the political situation. Following an October IMF staff mission, the Fund concluded that the governing coalition had effectively collapsed, and that there was no broad ownership of the program ahead of upcoming presidential elections. Whereas the SBA program targeted a budget deficit equivalent to 3 percent of GDP, the parliament approved a budget that creates a deficit equivalent to 8 percent of GDP. Additionally, the

President had declined to veto a wage and pensions bill one of the governing coalition partners had put forward which would increase spending by an additional 2.5-6.0 percent of GDP. The World Bank indicated that it could provide no further policy-based lending in the current environment.

Methodological Issue:
Outreach to non-Paris Club Creditors

¶27. (SBU) The Secretariat presented initial ideas for a new strategy to secure comparable treatment, particularly for HIPCs, from non-Paris Club creditors. Based on incomplete data from the IMF and World Bank's September 2009 HIPC implementation report, the Secretariat concluded that some non-Paris Club members were creditors of as many as eighteen (Kuwait) or twenty (China) HIPCs. Most non-Paris Club creditors did not provide debt relief comparable to HIPC terms. The Secretariat's proposed strategy divided the creditors into four groups: (1) Gulf states, (2) EU members, (3) emerging or middle-income economies (India, China, Venezuela, Libya, Taiwan), and (4) "difficult" countries (Iran, Angola, Honduras). The strategy suggested a joint diplomatic initiative to the Gulf countries, proceeding through EU channels to contact EU-member creditors, and ad hoc diplomatic efforts to engage emerging or middle-income economies.

¶28. (SBU) The U.S. suggested that it would be wise to discuss in advance with Embassies and others the likely reaction from Gulf governments and other creditors to any joint diplomatic approaches, and recommended working with IMF Executive Directors, who should understand HIPC and comparable treatment issues. While others supported these suggestions, the Paris Club took no decisions.

Methodological Issue:
Working Group on Guarantees

¶29. (SBU) The dynamics of the working group on treatment of loan guarantees meeting were different than in previous months. Four creditors - Italy (which had sent its export credit agency's (SACE) legal advisor for the meeting), the U.S., Russia, and Canada - spoke strongly against automatic inclusion of non-indemnified guarantees, while only the UK spoke strongly in favor. The Secretariat/France was left in the middle.

¶30. (SBU) Italy and Germany even argued against automatically including in data calls guaranteed loans that were being serviced on schedule; nevertheless, it was again agreed that creditors would attempt to include them to the extent possible. Denmark argued that such data was already provided to the OECD; the Secretariat agreed to investigate this.

¶31. (SBU) Italy argued that until claims are indemnified they do not belong to the government, and therefore cannot be treated, which the Secretariat noted could in itself provide an incentive to default. The U.S. responded that while this might be theoretically true, there

was no evidence of this incentive in practice - and indeed, no evidence that the non-indemnified claims were a practical problem at all.

¶32. (SBU) The UK noted that the standard language of Agreed Minutes implied the inclusion of all guarantees, whether indemnified or not, in Paris Club treatment. The Secretariat observed that even if non-indemnified claims were excluded from a treatment, the debtor was obligated to seek comparable treatment on such claims - which argued for including them in the Paris Club treatment in the first place. Germany, despite its concerns over inclusion in data calls, opined that legally-constrained creditors should not be allowed to free ride on those without such constraints.

¶33. (SBU) Participants agreed to the following steps:

-- Paris Club members that do not have problems restructuring non-indemnified loan guarantees will check whether the restructuring of such debts is official policy, and whether the guarantor asks the commercial lender for authorization to restructure the debt (as the UK's export credit agency does).

-- Paris Club members that do not restructure such contingent liabilities would determine the extent of subsequent default on guaranteed loans that were performing at the time of the Paris Club treatment, how members reacted to such defaults if any occurred, and whether members could ask the commercial lenders to allow treatment.

-- All Paris Club members would examine the debt treatments provided to Indonesia (May 2005) and Pakistan (December 2001) to determine how such non-indemnified commercial loans were dealt with in actual cases.

¶34. (U) For additional information on any of the countries or issues mentioned above, please contact EEB/IFD/OMA David Freudenwald at freudenwalddj@state.gov or Nicholle Manz at manznm@state.gov.

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